

1.0 GENERAL

1.1 This operating circular, its appendices and our time and fee schedules (collectively “Circular”) govern the clearing and settlement of commercial automated clearing house (ACH) credit and debit items (including credit items subject to Article 4A) by the Federal Reserve Banks, sending banks, and receiving banks. Government ACH items are governed by Appendix D to this Circular. Each Reserve Bank has issued a Circular identical to this one.

1.2 This Circular is issued pursuant to Sections 4, 11A, 13, 16 and 19 of the Federal Reserve Act and related statutes. With respect to items other than credit items subject to Article 4A, this Circular is binding on a sending bank that sends items to a Reserve Bank, a receiving bank that receives items from a Reserve Bank, an account holder that has agreed to settle for items under this Circular, and another party interested in an item that agrees to this Circular or that is otherwise bound by it.

1.3 The provisions of Article 4A of the Uniform Commercial Code are incorporated in this Circular with respect to credit items subject to Article 4A. In the event of inconsistency between the provisions of this Circular and Article 4A with respect to such a credit item, the provisions of this Circular shall control. As regards credit items subject to Article 4A, this Circular is an operating circular as referred to in Section 4A-107, and is not a funds transfer system rule as defined in Article 4A. Nevertheless, this Circular governs the rights and obligations of parties to a funds transfer subject to Article 4A to the same extent as if this Circular were a funds transfer system rule. Under Article 4A, this Circular is binding on parties to an item besides the sending and receiving banks if the parties have notice that the Reserve Banks’ funds transfer system might be used for the transaction and that this Circular will apply, unless those other parties have agreed otherwise.

1.4 The following rules and agreements, as amended from time to time, are incorporated in this Circular as applicable ACH rules with respect to items, regardless of whether the sending bank or receiving bank is a member of an ACH association:

- (a) The Operating Rules of the National Automated Clearing House Association (NACHA), unless other rules apply under subparagraph (b).
- (b) The Operating Rules of regional ACH Associations that are members of NACHA, to the extent such rules (i) bind both the sending bank and the receiving bank, or (ii) in the case of a transaction involving a nonmember(s) of an ACH association, generally apply to transactions within the region where the sending bank and receiving bank are located.

Not incorporated in this Circular as applicable ACH rules are provisions that:

- (a) are in conflict with applicable law;
- (b) with respect to credit items subject to Article 4A, are in conflict with provisions of Article 4A that may not be varied;
- (c) limit the applicability of the ACH rules to members of an ACH association;
- (d) require dues or fees (other than a reasonable fee for copies of the ACH rules);
- (e) require execution of agreements by participating banks (such as settlement or indemnity agreements);
- (f) govern arbitration of disputes among participants; or
- (g) provide for payment of legal expenses to an ACH association in suits against the association.

This Circular does not affect the applicability of these provisions to members of the ACH association. This Circular preempts or supercedes the applicable ACH rules or other arrangements among parties to ACH items only to the extent that the provisions of those arrangements are inconsistent with this Circular.

2.0 DEFINITIONS

2.1 As used in this Circular:

(a) **account** means an account with reserve and/or clearing balances on the books of a Federal Reserve Bank. A sub-account is an information record of a subset of transactions that affect an account, and is not a separate account.

(b) **actually and finally collected funds** means cash or any other form of payment that is, or has become, final and irrevocable.

(c) **Administrative Reserve Bank** means the Reserve Bank in whose District an entity is located, as determined under the procedure described in 12 CFR 204.3(b)(2), even if the entity is not otherwise subject to that section.

(d) **applicable ACH** rules means the rules and agreements designated in this Circular as applicable to designated ACH transactions. See paragraph 1.4.

(e) **Article 4A** means Article 4A of the Uniform Commercial Code as set forth in Appendix B of Regulation J, 12 CFR Part 210, Subpart B. It includes provisions of Article 1 referred to in Article 4A as approved from time to time by the National Conference of Commissioners on Uniform State Laws and the American Law Institute.

(f) **as of adjustment** means a debit or a credit, for reserve or clearing balance maintenance purposes only, applied to the account of a sending or receiving bank in lieu of an interest charge or payment.

(g) **automated clearing house** or **ACH** means a facility that clears debit and credit items for banks.

(h) **bank** means (i) a depository institution as defined in Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)); (ii) a branch or agency of a foreign bank maintaining reserves under Section 7 of the International Banking Act of 1978 (12 U.S.C. 347d, 3105); (iii) a department, agency, instrumentality, independent establishment, or office of the United States, or a wholly owned or controlled Government corporation; or (iv) another entity for which a Reserve Bank directly provides ACH services.

(i) **banking day** means the part of a day during which a Reserve Bank, account holder, sending bank or receiving bank is open for the receipt, processing or transmission of items. See Appendix B for the Reserve Banks' ACH banking day. With respect to a credit item subject to Article 4A, **banking day** means a funds transfer business day.

(j) **credit item** means an item a sending bank sends to a Reserve Bank for debit to the sending bank's settlement account and for credit to a receiving bank's settlement account. Unless otherwise expressly stated, the term includes a credit item subject to Article 4A.

(k) **credit item subject to Article 4A** means a credit item that is a payment order as defined in Article 4A. The term does not include an ACH credit transaction any part of which is governed by the Electronic Fund Transfer Act, as amended, an inter-Reserve Bank settlement wire, or a non-dollar message such as a zero dollar return, prenotification, notification of change, or automated enrollment.

(l) **debit item** means an item a sending bank sends to a Reserve Bank for credit to the sending bank's settlement account and for debit to a receiving bank's settlement account.

(m) **effective date** means the date for settlement that a sending bank specifies in an item. See paragraph 8.

(n) **effective date window** means the minimum and maximum period of days

after the Reserve Bank's processing date within which the effective date must fall to receive desired settlement. See paragraph 8.

(o) **item** means an instruction for the payment of money that is handled by a Reserve Bank for processing or settlement under its ACH Circular. **Item** does not include: (i) an **item** as defined in Section 210.2 of Regulation J that is handled under Subpart A governing the collection of checks and other items; (ii) a **payment order** as defined in Section 210.26 of Regulation J that is handled under Subpart B governing funds transfers through the Fedwire^{®1} funds transfer system; (iii) a payment instruction subject to 31 CFR Parts 210 or 370, or other Treasury Department regulations governing Federal payments by the ACH method; or (iv) a wire transfer of securities by a Reserve Bank. Unless the context otherwise requires, the term includes both a credit item and a debit item.

(p) **receiving bank** means a bank designated in an item to receive the item from a Reserve Bank. With respect to a credit item subject to Article 4A, the term receiving bank may include a beneficiary as defined in Article 4A.

(q) **sending bank** means a bank designated in an item as sending the item to a Reserve Bank.

(r) **servicing Reserve Bank** means the Reserve Bank which is a sending or receiving bank's primary contact for communications relating to ACH items. The servicing Reserve Bank is usually the bank's Administrative Reserve Bank.

(s) **settlement account** means the account at a Reserve Bank that the sending bank or receiving bank maintains, or a correspondent bank's account that the sending bank or receiving bank uses, to settle items.

(t) **settlement date** means the date for settlement of an item as provided in this Circular.

(u) unless the context otherwise requires, terms not defined in this section but defined in the **applicable ACH rules** have the meanings given in such rules.

3.0 SENDING CREDIT AND DEBIT ITEMS

3.1 A sending bank that maintains or uses a settlement account at a Reserve Bank may send an item to any Reserve Bank, provided the receiving bank maintains or uses a settlement account for ACH items at a Reserve Bank. A sending bank may designate a sending point or ACH operator (other than a Reserve Bank) as its agent to send items to a Reserve Bank. The sending point or ACH operator (other than a Reserve Bank) is not a sender or receiving bank as defined in Article 4A, or a party to the item, in acting as agent of a sending bank.

3.2 For purposes of this Circular and Article 4A, the sending bank is deemed to have sent an item to its Administrative Reserve Bank, regardless of which Reserve Bank holds the sending bank's settlement account, maintains its electronic connection or receives the item. No Reserve Bank, other than the sending bank's Administrative Reserve Bank and the receiving bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank under Article 4A.

3.3 The sending bank's or receiving bank's Administrative Reserve Bank may instruct another Reserve Bank concerning the other Reserve Bank's handling of or settlement for an ACH item for purposes of managing the Administrative Reserve Bank's risk.

3.4 An item must be in the media the Reserve Banks prescribe and in the format prescribed by the applicable ACH rules.

1. Fedwire is a registered service mark of the Federal Reserve Banks.

4.0 SECURITY PROCEDURES

4.1 The security procedures a Reserve Bank offers to verify the authenticity of the source of an item are described in Appendix A of this Circular. Before sending an item to a Reserve Bank, a sending bank must execute an agreement with its servicing Reserve Bank in the form of Appendix A1, copies of which are available from the Reserve Banks. If a sending bank sends an item through an agent, the agent must also execute an agreement in the same form. A sending bank is deemed to agree to any security procedure used in sending an item to a Reserve Bank.

4.2 Each sending and receiving bank shall prevent any disclosure, except on a “need to know” basis, of any aspects of the security procedures agreed to by it with its servicing Reserve Bank. The sending or receiving bank shall notify its servicing Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

5.0 SENDING BANK’S AGREEMENTS

5.1 By sending an item to a Reserve Bank, the sending bank:

- (a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;
- (b) authorizes the Reserve Banks to process the item in accordance with this Circular;
- (c) authorizes the Reserve Bank holding the sending bank’s settlement account to debit the amount of a credit item, or credit the amount of a debit item, to the sending bank’s settlement account on the settlement date; and
- (d) agrees to indemnify each Reserve Bank processing or settling for the item

for any loss or expense (including attorneys’ fees and expenses of litigation) incurred by the Reserve Bank as a result of any action taken with respect to the item by the Reserve Bank in accordance with its Circular.

5.2 The agreements, authorizations and indemnity in paragraph 5.1 do not limit any other agreement, authorization or indemnity, not inconsistent with paragraph 5.1, made by a sending bank to a receiving bank, a Reserve Bank or another person.

PREFUNDING

5.3 The Administrative Reserve Bank of a (sending or correspondent) bank that settles for credit item originations may require the bank to prefund in accordance with Appendix C credit item originations that settle through the bank’s account, if the Administrative Reserve Bank has determined to monitor the bank’s account in real time. If credit item originations are not prefunded when required, they may be rejected. In the event of prefunding, a Reserve Bank will substitute itself for the sending or correspondent bank’s settlement obligation with respect to the credit items, and Appendix C shall supersede other provisions of this Circular that are inconsistent with Appendix C.

6.0 PROCESSING OF ITEMS

6.1 The Reserve Banks process items in accordance with the applicable ACH rules and this Circular. A Reserve Bank may reject, or may impose conditions to its processing of, any item for any reason. A Reserve Bank will not act on instructions in an item other than information required by format specifications in applicable ACH rules. If a Reserve Bank notifies a sending bank of the receipt of a suspected duplicate file or any other problem, the Reserve Bank will not process the file without approval by the sending bank or its agent. Except as expressly provided in this Circular, a Reserve Bank does not have or assume any responsibility for a sending or receiving bank’s, or ACH operator’s (other than a Reserve Bank’s), compliance with applicable ACH rules. A Reserve Bank may

record by audio recording device any telephone call relating to an item.

6.2 The Reserve Banks send an acknowledgment to the sending bank that a Reserve Bank has received ACH files by electronic transmission and has performed limited processing of the files, as provided in applicable ACH rules. An acknowledgment does not mean that a Reserve Bank has accepted, and will not reject, the items contained in the files. The sending bank is responsible for verifying the information in the acknowledgment and notifying the servicing Reserve Bank immediately of any discrepancy, and for notifying the servicing Reserve Bank promptly of nonreceipt of an acknowledgment. See paragraph 19.

6.3 A sending bank must designate the receiving bank for an item by routing number. A Reserve Bank is not responsible for the accuracy of a routing number contained in and/or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list or file. A Reserve Bank may process an item on the basis of a routing number of a receiving bank appearing in any form on the item when received. A Reserve Bank is not responsible for any loss or delay resulting from acting on the number, whether or not the number is consistent with any other designation of the receiving bank on the item, if the Reserve Bank does not know of the inconsistency in designation. For purposes of Article 4A, an identifying number of a branch of a domestic bank is deemed to be the identifying number of the bank.

CROSS-BORDER PAYMENTS

6.4 The Reserve Banks process certain cross-border ACH items in accordance with this Circular, agreements between a Reserve Bank gateway operator and a foreign gateway operator, and the International ACH Service Manual issued by the Reserve Banks as applicable to specified foreign countries, as amended from time to time. These rules, agreements, and guidebooks generally do not supersede the laws and rules that apply to the handling of items in foreign payment systems. The application of

foreign payment system rules to a cross-border ACH item may produce outcomes different from the outcomes that would result from handling of the same item under domestic rules. For example, the time for return of cross-border items may be different; returned items may not be able to be dishonored; cross-border items may not be reversible; prenotes, and items to be settled on a foreign holiday, may not be acceptable; the receiver may not receive credit on the settlement date; and special fees may apply. Sending and receiving banks are responsible for understanding the rules applicable to cross-border payments in a foreign country, and the limitations on types of cross-border payment transactions that are accepted by Reserve Banks.

6.5 Notwithstanding paragraph 20.1(c) of this Circular, a Reserve Bank acting as a gateway operator for an outbound cross-border item warrants to the sending bank only that it has processed and edited the item in a manner that is in compliance with the applicable agreement between the Reserve Bank gateway operator and the foreign gateway operator, and with this Circular.

6.6 Notwithstanding paragraph 20.1(c) of this Circular, a Reserve Bank acting as a gateway operator for an inbound cross-border item warrants to the receiving bank only that the item (a) is in accordance with an authorization of the receiver, and (b) is in compliance with the requirements of this Circular.

6.7 A Reserve Bank gateway operator's liability for breach of warranty under paragraphs 6.5 and 6.6 is limited to the amount of the item, interest and expenses, and does not include damages that are attributable to the consequences of the breach, even if the consequences were foreseeable at the time of the breach.

6.8 Under agreements between a Reserve Bank gateway operator and a foreign gateway operator, the sending bank bears all risk of exchange rate fluctuation during the processing of a cross-border item. A Reserve Bank assumes no liability to a sending bank or other person with respect to a return of a cross-border item whether or not it is returned in accordance with the payments system rules of the receiving country.

Sending and receiving banks are responsible for complying with applicable Office of Foreign Assets Control regulations (31 CFR Part 500 et al.).

7.0 DELIVERY OF ITEMS

7.1 By prior arrangement with a receiving bank, a Reserve Bank sends items by electronic means to the receiving bank, or to a receiving point or ACH operator (other than a Reserve Bank) designated as its agent by the receiving bank. In emergency circumstances, the Reserve Bank sends items as arranged with the receiving bank, or by the same means and to the same location to which it sends cash items for the receiving bank. If the receiving bank requests that items be sent to or made available for pick-up by another person, that person is the receiving bank's agent and is not a sender or receiving bank as defined in Article 4A or a party to an item in acting as agent of the receiving bank. Items are considered received by a receiving bank in accordance with applicable ACH rules, except as provided in paragraph 7.2. A receiving bank should promptly advise its servicing Reserve Bank by telephone if it does not receive items by the expected date.

7.2 A receiving bank must manage its electronic connection so as to permit it to receive items in a timely manner throughout the day. A receiving bank that does not receive items in a timely manner because it fails to so manage its electronic connection, or because of emergency circumstances beyond the control of a Reserve Bank, is required to settle for the items with a Reserve Bank on the settlement date, but is not considered to receive the items for purposes of the deadline for return, if the items are available timely for electronic transmission by a Reserve Bank to the receiving bank, or for pick-up at a Reserve Bank by the receiving bank. The receiving bank may choose next day debit with as of adjustment or explicit charge for float in lieu of settling on the settlement date for debit items.

7.3 For purposes of this Circular and Article 4A, the receiving bank is deemed to have received an item from its Administrative Reserve Bank, regardless of which

Reserve Bank holds the receiving bank's settlement account, maintains its electronic connection or sends the item to the receiving bank. No Reserve Bank, other than the receiving bank's Administrative Reserve Bank and the sending bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank under Article 4A. See paragraphs 3.2 and 3.3.

8.0 TIME SCHEDULES, SETTLEMENT DATES AND EXTENSIONS OF TIME LIMITS

8.1 The ACH items time schedule (Appendix B) shows the banking days and the closing hours for a Reserve Bank to receive credit and debit items of various classes for immediate or next day settlement. The time schedule also shows the effective date window for classes of items and provisions for settlement for various effective dates.

8.2 The Reserve Banks process items in accordance with their processing schedules, and send them to the receiving bank on or before the settlement date. If, because of circumstances beyond a Reserve Bank's control, it is delayed beyond the applicable time limit in acting on an item (other than a credit item subject to Article 4A), the time for acting is extended for the time necessary to complete the action, provided the Reserve Bank exercises such diligence as the circumstances require.

9.0 DESIGNATION OF SETTLEMENT ACCOUNT

9.1 Prior to sending an item to (or receiving an item from) a Reserve Bank, a sending bank (and a receiving bank) must designate to its Administrative Reserve Bank a settlement account(s) on a Reserve Bank's books, and identify the transactions to be settled through the account(s). See operating circular 1, "Account Relationships." If the bank designates a correspondent bank's account, the correspondent bank must agree to that designation. If the settlement account is on the books of another Reserve Bank, the other Reserve

Bank must not object to the designation. A correspondent bank whose account is used by a sending or receiving bank for settlement of items, and a Reserve Bank, other than the sending or receiving bank's Administrative Reserve Bank, that holds the settlement account, does not thereby become a sender or receiving bank as defined in Article 4A, or a party to an item. A sending or receiving bank remains responsible under this Circular for all transactions, notwithstanding that it has designated a settlement account, including a settlement account maintained by a correspondent bank. A Reserve Bank may, in its discretion, recover the unpaid balance of the sending or receiving bank's obligation with respect to an item from the sending or receiving bank, respectively, without prior notice or demand.

9.2 A Reserve Bank may charge against a sending or receiving bank's account the amount of the bank's ACH transactions, unless the bank makes other arrangements for settlement.

9.3 By designating a settlement account, a bank (or a correspondent bank, if any) authorizes the Reserve Bank that holds the settlement account: (1) to debit to its account on the settlement date the amount of credit items sent by the bank to a Reserve Bank, the amount of debit items sent to the bank by a Reserve Bank, and the amount of Government ACH debit items sent to the bank by a Reserve Bank; (2) to credit to its account on the settlement date the amount of debit items sent by the bank to a Reserve Bank, the amount of credit items sent to the bank by a Reserve Bank, and the amount of Government ACH credit items sent to the bank by a Reserve Bank; and (3) to debit and credit to its account the amount of other transactions (including fees, unless otherwise agreed) with respect to ACH items and Government ACH items as provided in this Circular.

9.4 The bank (or a correspondent bank, if any) agrees to maintain to its credit in its account, consistent with paragraph 10 of this Circular, a balance of actually and finally collected funds sufficient to cover charges under this Circular and all other charges to its account. The Reserve Banks assume no responsibility for any obligations or rights of a bank with respect to its corre-

spondent bank, if any (or of an intermediary correspondent that is not an account holder, if any, with respect to its correspondent account holder).

9.5 By designating a settlement account, and in consideration of the processing and settlement by the Reserve Banks of items sent to and/or received by the bank and other sending and receiving banks, the bank (and its correspondent bank, if any) agrees to the Reserve Banks' Circular entitled "ACH Items" and to the applicable ACH rules, each as amended from time to time, for the benefit of all parties interested in the items.

9.6 A settlement designation supersedes all prior inconsistent designations with respect to items. The sending or receiving bank may terminate a settlement designation by written notice to the Reserve Bank that holds the account (and the Reserve Bank may terminate a settlement designation by written notice to the bank) effective five banking days after receipt of the notice or on a subsequent date specified in the notice. A correspondent bank (or an intermediary correspondent that is not an account holder, if any) may terminate a settlement designation by written notice to the Reserve Bank that holds the settlement account, effective only for ACH items to be settled on and after the banking day following the banking day of receipt of the notice, or on a later date specified in the notice. A sending or receiving bank must designate another settlement account if its correspondent bank suspends payment or is closed, if the authority to charge the correspondent's account is terminated, or if the correspondent's Administrative Reserve Bank judges, in its discretion, that there will not be sufficient funds in the account on the settlement date to cover an item.

10.0 SETTLEMENT

10.1 A sending or receiving bank's settlement obligation is owed to its Administrative Reserve Bank, even if it has designated an account on another Reserve Bank's books for settlement. Settlement with the Reserve Bank that holds the settlement account is deemed to be settlement with the sending

or receiving bank's Administrative Reserve Bank.

10.2 On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits (or credits) that account in the amount of a credit (or debit) item, and the Reserve Bank that holds the receiving bank's settlement account credits (or debits) the receiving bank's account in the amount of the credit (or debit) item. Settlement for credit items must be made by the sending bank at the time provided in Appendix B, and credit for credit items is available for withdrawal or other use by the receiving bank at that time, subject to the provisions of this Circular. Settlement for debit items must be made by the receiving bank at the time provided in Appendix B, and credit for debit items is available for withdrawal or other use by the sending bank at that time, subject to the provisions of this Circular.

SECURITY INTEREST

10.3 To secure any obligation, now existing or arising in the future, in connection with an ACH item by a sending or receiving bank (or by a correspondent bank whose account a sending or receiving bank uses for settlement) to a Reserve Bank, the bank grants to the Reserve Bank all the bank's right, title, and interest in property, whether now owned or hereafter acquired, in the possession or control of, or maintained with, any Reserve Bank, including but not limited to the bank's deposit account maintained with any Reserve Bank, items in the process of collection and their proceeds, and any investment property (including securities, security entitlements, and security accounts), but excluding any investment property which the bank may not encumber under applicable law. This security interest is in addition to any other security interest granted to a Reserve Bank by the bank under regulation or agreement. The secured Reserve Bank may take any action authorized by law to recover the amount owed to it by the bank, including but not limited to the exercise of setoff without demand or notice and even if the obligations are contingent or unmatured, the realization on any available collateral,

and the exercise of any rights it may have as a creditor under applicable law.

REFUSAL TO SETTLE

10.4 If the Reserve Bank that holds the settlement account judges, in its discretion, that there may not be sufficient funds in the account at the settlement time provided in Appendix B on the settlement date to cover a debit for a credit item (including a credit item subject to Article 4A) or for a debit item, the Reserve Banks may cease processing the item and may refuse to settle for it. The Reserve Banks may also cease processing and refuse to settle for an item if they receive notice of the suspension or closing of the sending or receiving bank (other than the sending bank of a prefunded credit item) prior to the time settlement is final under this Circular. If the Reserve Banks cease processing or refuse to settle for an item, they will notify the sending bank and a receiving bank to which the item has been sent (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

11.0 AVAILABILITY OF CREDIT

DEBIT ITEMS

11.1 Credit given for a debit item by the Reserve Bank that holds the sending bank's settlement account is available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) on the settlement date, subject to paragraph 10.7, this paragraph, and other provisions of this Circular. The Reserve Bank may refuse to permit the use of credit given for a debit item if it judges that there may not be sufficient funds in the sending bank's settlement account to cover chargeback or return of the item. If a Reserve Bank does not receive actually and finally collected funds in settlement of a debit item at or before 8:30 a.m. ET on the banking day following the settlement date, the Reserve Banks that hold the sending and receiving banks' settlement accounts may reverse the debit and credit previously made in settlement of the item by 8:30 a.m. ET, and will notify the sending and receiving banks (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

CREDIT ITEMS

11.2 Credit given by the Reserve Bank that holds the receiving bank's settlement account for a credit item (including a credit item subject to Article 4A) is final and available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) at the settlement time provided in Appendix B on the settlement date.

12.0 RECEIVING BANK'S AGREEMENTS

12.1 A receiving bank, by maintaining or using an account with a Reserve Bank for settlement of items or by accepting an item from a Reserve Bank:

(a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;

(b) agrees to process the item in accordance with this Circular;

(c) authorizes the Reserve Bank holding the receiving bank's settlement account to credit the amount of a credit item, or debit the amount of a debit item, to the receiving bank's settlement account on the settlement date; and

(d) agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys' fees and expenses of litigation) incurred as a result of a breach of the foregoing agreements or of any action taken by the Reserve Bank in accordance with its Circular.

12.2 The agreements, authorization and indemnity in paragraph 12.1 do not limit any other agreement, authorization or indemnity, not inconsistent with paragraph 12.1, made by a receiving bank to a sending bank, a Reserve Bank or another person.

13.0 REVOCATION OF ITEMS

13.1 A sending bank or prior party may not amend or revoke an item after it has been received by a Reserve Bank, except as provided in applicable ACH rules.

13.2 A Reserve Bank may cancel items by initiating a reversing batch of items in accordance with applicable ACH rules if it discovers that a Reserve Bank sent a duplicate or erroneous batch of items. The Reserve Bank will notify the sending bank accordingly. Nothing in this Circular constitutes a waiver by any Reserve Bank of a right of recovery under the applicable law of mistake and restitution.

14.0 RETURN OF ITEMS AND FUNDS

14.1 A receiving bank may return a debit or credit item to any Reserve Bank in accordance with the applicable ACH rules and by the closing hour set forth in the ACH time schedule. The receiving bank is accountable for the amount of a debit item if the returned item is not received by that closing hour.

14.2 The Reserve Banks process a returned item they receive from a receiving bank and send it or make it available to the sending bank in accordance with the provisions of this Circular governing the processing of items. On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits or credits that account in the amount of a returned debit or credit item, and the Reserve Bank that holds the receiving bank's settlement account credits or debits that account in the amount of the returned debit or credit item at the time provided in Appendix B, subject to the provisions of this Circular governing the settlement for items.

14.3 A receiving bank should keep records that permit it to identify the source of receipt of items. By sending a returned debit item to a Reserve Bank, a receiving bank:
(a) agrees on request to provide records showing whether it received the debit item from a Reserve Bank, and (b) if it did not

receive the debit item from a Reserve Bank, agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the returned debit item from the sending bank.

14.4 If a receiving bank sends an adjustment entry for an unauthorized debit item to a Reserve Bank in accordance with applicable ACH rules, the receiving bank agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the adjustment from the sending bank, whether or not the receiving bank received the debit item from a Reserve Bank.

15.0 DISPUTED RETURNS

15.1 If a sending bank disputes the propriety of a returned item one time in accordance with applicable ACH rules, the Reserve Bank(s) that holds the sending bank's and the receiving bank's settlement accounts will provisionally settle for the disputed return, subject to receipt of funds from the receiving bank. If the receiving bank disputes the sending bank's claim in accordance with applicable ACH rules, the Reserve Bank(s) will reverse the provisional settlement for the disputed return, subject to receipt of funds from the sending bank.

16.0 ADVICES OF CREDIT AND DEBIT; REPORTING OF ERRORS

16.1 A Reserve Bank provides, in a statement, advices of credit and debit to an account holder for items for which the account holder has agreed to settle. An advice of credit indicates that credit has been given, subject to the provisions of this Circular. A Reserve Bank also, on request, provides advices to a person other than the bank or its correspondent, as the bank's agent, in accordance with paragraph 7 of this Circular.

16.2 A Reserve Bank properly executes a credit item subject to Article 4A if it sends an advice of credit as requested by the receiving bank. A sending or receiving bank

(and a correspondent bank, if any) agree that a reasonable time to notify its servicing Reserve Bank concerning an unauthorized or erroneously executed item is within thirty calendar days after the bank (or correspondent) receives an advice of debit. Notice after that time may constitute the failure to exercise ordinary care, precluding the recovery by the bank of interest (with respect to a credit item subject to Article 4A) and other damages (with respect to other items).

16.3 In addition to the requirement for prompt notice under paragraph 16.2. and Sections 4A-204 and 4A-304 of Article 4A, a sending or receiving bank (or a correspondent account holder, if any) shall notify its servicing Reserve Bank immediately if it learns of or discovers, from any source other than an advice of debit from the Reserve Bank, the possibility of error or lack of authority in the transmission or processing of an item. See also paragraph 4.

17.0 RECORDS

17.1 Each sending and receiving bank should keep records that permit it to resolve questions that arise concerning the handling of items, and to resend items if a Reserve Bank notifies it that the items have been lost because of a computer outage or other reason. A Reserve Bank keeps records of items processed for only one year after the settlement date.

18.0 FEES

18.1 The ACH Fee Schedule shows the charges imposed for processing and settlement of items. A Reserve Bank may make the charge to the sending or receiving bank's account, as otherwise agreed with the sending or receiving bank, or to the account designated by the sending or receiving point or ACH operator (other than a Reserve Bank), as applicable.

19.0 NON-VALUE MESSAGES

19.1 The Reserve Banks handle a message that does not result in an accounting entry,

such as a prenotification or notification of change, in the same manner as an item except that no funds are transferred. A Reserve Bank's liability for damage caused by its failure to exercise ordinary care, or by its own or its employees' willful misconduct, in processing a non-value message may not exceed the amount of any fee paid to a Reserve Bank for the message.

20.0 RESERVE BANK LIABILITY; ITEM OTHER THAN CREDIT ITEM SUBJECT TO ARTICLE 4A

LIMITATIONS ON LIABILITY

20.1 With respect to an item other than a credit item subject to Article 4A:

- (a) a Reserve Bank is responsible or liable only to a sending bank, a receiving bank or another Reserve Bank, and only for its own failure to exercise ordinary care, or for its own or its employees' willful misconduct;
- (b) a Reserve Bank does not act as the agent or subagent of another bank or person and is not liable for the insolvency, neglect, misconduct, mistake or default of another bank or person;
- (c) a Reserve Bank does not make any warranty with respect to an item it processes or settles for under this Circular; and
- (d) no person may make a claim against a Reserve Bank for loss resulting from the Reserve Bank's processing of or settling for an item after one year from the settlement date of the item. If a bank (or correspondent bank, if any) does not send written objection to an advice of debit to its servicing Reserve Bank within thirty calendar days after receipt of the advice, it is deemed to approve the debit on its own behalf (and on behalf of a sending or receiving bank using the account for settlement, if any).

MEASURE OF DAMAGES

20.2 The measure of damages for a Reserve Bank's failure to exercise ordinary care, or

for its own or its employees' willful misconduct, is as follows:

(a) for a credit item (including a returned credit item but excluding a credit item subject to Article 4A), its liability is limited to damages that are attributable directly and immediately to the failure to exercise ordinary care or to the willful misconduct, and does not include damages that are attributable to the consequences of such conduct, even if such consequences were foreseeable at the time of such conduct.

(b) for a debit item (including a returned debit item), its liability for its failure to exercise ordinary care is limited to the amount of the item reduced by an amount that could not have been realized by the use of ordinary care. Where there is willful misconduct with respect to a debit item, the measure of damages includes other damages that are attributable directly and immediately to the willful misconduct, but does not include damages that are attributable to the consequences of such misconduct, even if such consequences were foreseeable at the time of such misconduct.

21.0 RESERVE BANK LIABILITY; CREDIT ITEM SUBJECT TO ARTICLE 4A

LIABILITY

21.1 A Reserve Bank's liability with respect to a credit item subject to Article 4A is governed by Article 4A, except as otherwise provided in this Circular. A Reserve Bank is not liable with respect to a credit item subject to Article 4A for any damages other than those payable under Article 4A. A Reserve Bank shall not agree to be liable for consequential damages with respect to a credit item subject to Article 4A under Section 4A-305(d) of Article 4A.

AS OF ADJUSTMENTS

21.2 A Reserve Bank may, in its discretion, satisfy its or another Reserve Bank's obligation to pay compensation in the form of interest under Article 4A by:

(a) providing an as of adjustment to a sending or receiving bank in an amount equal to the amount on which interest is to be calculated multiplied by the number of days for which interest is to be calculated; or

(b) paying compensation in the form of interest to a sending bank, receiving bank or another party to the item that is entitled to such payment, in an amount calculated in accordance with Section 4A-506 of Article 4A.

21.3 If a sending or receiving bank that receives an as of adjustment in the form of a credit, or an interest payment, is not the party entitled to compensation under Article 4A, the bank shall pass through the benefit of the adjustment or payment by making an interest payment (as of the day the adjustment or payment is made) to the party entitled to compensation. The interest payment that is made to the party entitled to compensation shall not be less than the value of the as of adjustment or interest payment that was provided by the Reserve Bank to the sending or receiving bank. The party entitled to compensation may agree to accept compensation in a form other than a direct interest payment, if the alternative form of compensation is not less than the value of the interest payment that otherwise would be made.

21.4 A Reserve Bank may make an as of adjustment pursuant to paragraph 21.2 as follows:

(a) The Reserve Bank will normally process and apply an as of adjustment to the reserve maintenance period during which the transaction giving rise to the obligation to pay interest occurred, so that there will be no impact on aggregate reserves. If the Reserve Bank determines that is not feasible, in its sole discretion, it will process and apply the as of adjustment to the current reserve period.

(b) If an as of adjustment would be applied to one of the last three days of a reserve maintenance period, the Reserve Bank may apply it to either the current or future reserve maintenance periods.

(c) If a Reserve Bank delays execution of a credit item subject to Article 4A (see Section 4A-305(a) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was not debited at the appropriate time, the Reserve Bank will make an offsetting as of debit adjustment to the sending bank's account.

(d) If a Reserve Bank misdirects a credit item subject to Article 4A (see Sections 4A-303(c) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the account of the bank that should have received the order. If agreed by the bank that received the misdirected order, the Reserve Bank will make an offsetting as of debit adjustment to the receiving bank's account.

(e) If a Reserve Bank sends a credit item subject to Article 4A in an amount less than the amount that was intended (see Sections 4A-303(b) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was not debited in the appropriate amount, the Reserve Bank will make an as of debit adjustment to the sending bank's account.

(f) If a Reserve Bank issues a duplicate credit item subject to Article 4A or a credit item subject to Article 4A that is in an amount more than was intended (see Sections 4A-303(a) and 4A-305(b) of Article 4A), and if the sending bank's account was not debited in the appropriate amount, the Reserve Bank may make an as of credit adjustment to the sending bank's account. If agreed by the receiving bank, the Reserve Bank will make an as of debit adjustment to the receiving bank's account.

(g) If a Reserve Bank delays rejection of a credit item subject to Article 4A (see Sections 4A-209(b) and 4A-210(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the sending bank's account.

(h) A Reserve Bank will apply offsetting as of adjustments to the same reserve maintenance periods to the extent feasible.

final judgment or decree, together with interest, and the amount of attorneys' fees and other expenses of litigation incurred.

22.0 FORUM FOR ACTION

22.1 Any action against a Reserve Bank for that Reserve Bank's acts or omissions relating to the clearing of or settlement for an ACH item must be brought in the United States District Court and Division where the office or branch of the Reserve Bank that committed the alleged act or omission is located.

23.0 RECOVERY BY RESERVE BANK

23.1 If an action or proceeding is brought against a Reserve Bank based on:

(a) an alleged breach of (or an alleged failure to have the authority to make) any of the authorizations and agreements referred to in paragraphs 5.1 and 12.1 of this Circular by the sending or receiving bank, or an alleged breach of the applicable ACH rules by the sending bank, the receiving bank or another Reserve Bank; or

(b) any action by the Reserve Bank in accordance with its Circular; the Reserve Bank may recover from the sending bank, the receiving bank or the other Reserve Bank, as the case may be, any amount the Reserve Bank is required to pay under a

23.2 The Reserve Bank may recover the amount stated in paragraph 23.1 by charging the sending or receiving bank's account (or if the item was received from, sent to, or settled through another Reserve Bank, by charging the other Reserve Bank), if:

(a) the Reserve Bank has made timely written demand on the sending bank, receiving bank, or other Reserve Bank to assume defense of the action or proceeding; and

(b) no other arrangement for payment acceptable to the Reserve Bank has been made.

A Reserve Bank that has been charged under this paragraph may recover from the sending or receiving bank in the manner and under the circumstances set forth in this paragraph. A Reserve Bank's failure to avail itself of the remedy provided in this paragraph does not prejudice its enforcement in any other manner of the indemnity agreements referred to in paragraphs 5.1 and 12.1.

24.0 RIGHT TO AMEND

24.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

Appendix A

ACH SECURITY PROCEDURES

1.0 GENERAL

- 1.1 The Reserve Banks offer the following security procedures to each sending bank that is authorized to send ACH items to a Reserve Bank, for the purpose of verifying the authenticity of the source of the ACH items. The security procedures are not used to detect an error in the transmission or the content of the ACH items.
- 1.2 Prior to selecting any Security Procedure, a sending bank should consider the degree to which the various options satisfy the sending bank's business needs given the size, type and frequency of ACH items sent to a Reserve Bank.

2.0 LEVEL ONE SECURITY PROCEDURES

- 2.1 The Reserve Banks offer one or more Level One Security Procedures. Level One Security Procedures are available to any bank that sends or receives ACH items by means of an encrypted leased or dial up communications line between its computer and a Reserve Bank's computer utilizing a hardware/software system certified by a Reserve Bank or by means of FedLine for the Web.
- 2.2 Level One Security Procedures are incorporated in the hardware and software associated with the computer or in the digital certification procedures required by the Reserve Bank for banks that use FedLine for the Web. In general, the procedure includes access controls such as identification codes and confidential passwords that allow a customer to access the Reserve Banks' system, and also encryption of ACH items during the transmission process. All of the Level One Security Procedures require the bank to implement physical security as well as management controls that protect the hardware and software from unauthorized use.
- 2.3 The primary differences between the various Level One Security Procedures relate to the strength of the encryption algorithm and/or the type of software used to access a Reserve Bank's network.
- 2.4 The procedures are more specifically described in the Computer Interface Protocol Specifications (CIPS), the FedLine® Users Guide, the FedLine PC Administrator's Guide, the FedLine Management Guide, the Securing Your Window to FedLine video and the Local Security Administrator Guide, which are available from any Reserve Bank. The bank is responsible for implementing the procedures set forth in the applicable security documentation provided to it by the Reserve Bank as well as any subsequent modification to the procedures that are designed to strengthen the security procedures.
- 2.5 By using FedLine for the Web to transmit or receive ACH items, a bank agrees that the terms of this Appendix A, Operating Circular 5, "Electronic Access," including the Certification Practice Statement incorporated into Operating Circular 5, as well as any documentation made available to the bank concerning the installation, use, or administration of the electronic connection apply to the use of FedLine for the Web. A bank using FedLine for the Web may use its available features as well as features of other Level One Security Procedures.

3.0 LEVEL TWO SECURITY PROCEDURE

- 3.1 The Level Two Security Procedure is available to any bank that sends ACH items to a Reserve Bank by electronic transmission that does not include both encryption and access controls. It is also used when a bank that normally sends ACH items under one of the Level One Security Procedures defined above is unable to do so because of an equipment or communications failure or other circumstances.

- 3.2 In the case of electronic transmission of ACH items, the Level Two Security Procedure is incorporated in the transmission process and, in general, includes either access controls or encryption. When ACH items are sent by magnetic tape, diskette, or electronic transmission that does not include either encryption or access controls, the Level Two Security Procedure includes a procedure whereby the sending bank or its agent provides file control information — i.e., file ID, debit and credit dollar amounts, and entry/addenda count — to a Reserve Bank and then the Reserve Bank compares that information against the file(s) it actually receives. The control information may be provided by:
 - a) voice response if the voice response system contains an access security feature;
 - b) a telephone call using codewords; or
 - c) a transmittal register or a telephone call. When the control information is provided by this means, it will be verified by a call back from the Reserve Bank.

Appendix A1

ACH SECURITY PROCEDURE AGREEMENT

Date: _____

To: Federal Reserve Bank of _____

_____ Office

Attention: Manager, ACH Operations

We agree to the provisions of the Federal Reserve Banks' Operating Circular entitled "Automated Clearing House Items" and its appendices ("Circular"), as amended from time to time.

If we use an encrypted communications line with access controls for the transmission of ACH items to a Reserve Bank, we will choose one of the Level One Security Procedures as generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. If you offer more than one Level One Security Procedure, when we use one of the Level One Security Procedures, we reject the other Level One Security Procedure offered by you. We also agree that this procedure will be used if we receive ACH items by means of an encrypted electronic communications line with access controls. The chosen Level One Security Procedure will be used for the purpose of verifying that ACH items were sent or received by us.

If we use a method other than an encrypted communications line with access controls for the transmission of ACH items, we reject the Level One Security Procedures and choose the Level Two Security Procedure generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. This security procedure will be used for the purpose of verifying that ACH items were sent by us.

We understand that the Level Two Security Procedure as well as any of the Level One Security Procedures may be deemed commercially reasonable pursuant to Section 4A-202(c) of Article 4A of the Uniform Commercial Code.

Whenever we choose to use one of the Level One Security Procedures or the Level Two Security Procedure, we agree to be bound by any ACH item, whether or not authorized, sent in our name and accepted by a Reserve Bank in compliance with such procedure.

We understand that the Level One and Level Two Security Procedures will not be used to detect any error in the transmission or content of ACH items.

We also understand and agree that the security procedures established by this Agreement may be changed only by an amendment to Appendix A or other written agreement. The Agreement may not be changed by an oral agreement or by a course of dealing or custom.

Name of Bank _____

Authorized Signature _____

Appendix B

ACH ITEMS TIME SCHEDULE

1.0 BANKING DAY; CLOSING TIMES; SETTLEMENT TIMES

1.1 This time schedule shows the Reserve Banks' banking day for processing ACH items, the closing times for receipt of ACH files for settlement on the dates set forth in this Appendix, and the times for settlement of ACH Items.

1.2 **Banking Day.** The Reserve Banks' banking day for receipt of ACH items is from 3:00 a.m. ET to 2:59 a.m. ET on the next calendar day.²

1.3 Closing Times³

	Immediate Settlement⁴ (Returns and NACS Items)	End of Day⁵
Automated Items	2:00 p.m. ET	2:15 a.m. ET
Voice Response Returns and Telephone Return Debit Items of \$2,500 or more	1:30 p.m. ET	8:00 p.m. ET
Paper Returns and NOCs	8:00 a.m. ET	

1.4 **Settlement Times.** Credit items are settled at 8:30 a.m. ET. Debit items are settled at 11:00 a.m. ET. Immediate settlement items are settled at 5:00 p.m. ET.

2. Reserve Banks process and transmit files up until 6:00 a.m. ET on the calendar day on which the banking day ends. Certain other times apply before and after weekends and holidays. All times listed are Eastern Time.

3. Closing times represent the end of the deposit window. Files must be completely received (e.g., data transmission fully concluded) by the closing time. Sending banks should coordinate the beginning of their transmission within the window to ensure completion by the closing time. Deposits of 500,000 items or more must be received one-half hour earlier than the indicated deadline. Sending banks using non-electronic means for transmission, due to contingency situations, may be required to submit tapes at earlier deadlines.

4. Immediate Settlement (same-day settlement) means settlement on the same banking day as received. Immediate settlement is applicable only to returns and NACS (National Association of Check Safekeeping) items. Items designated for immediate settlement that are received after the immediate settlement deadline will be settled the next banking day.

5. ACH items must be received by the End of Day closing time to be processed as of the current banking day.

2.0 EFFECTIVE DATE WINDOWS

- 2.1 Items (other than returns, notifications of change (NOCs) and NACS items) should specify an effective date within the following effective date windows, computed from the Reserve Banks' banking day of receipt.

<u>Class</u>	<u>Effective Date Window</u>
Credit Items	One or Two Banking Days
Debit Items	One Banking Day Only

Items received with an effective date later than the effective date window will be returned to the sender.

3.0 SETTLEMENT DATES

- 3.1 Items with an effective date of one banking day are settled on the Reserve Banks' banking day following the banking day of receipt. Items with an effective date of two banking days are settled on the second banking day following receipt. The settlement date for immediate settlement items (returns and NACS items) that are received by the closing time for immediate settlement items is the banking day of receipt.
- 3.2 If an effective date is not specified, or if an item specifies an effective date the same as or earlier than the Reserve Banks' banking day of receipt, the settlement date is the banking day following receipt. If an item specifies a settlement date that is a standard Reserve Bank holiday, the settlement date is the next banking day for the Reserve Banks.
- 3.3 If an item specifies a settlement date that is not a banking day for the sending bank or the receiving bank, settlement is effected, with respect to that party, as follows:

Debit Items:

Sending bank closed: Credit sending bank's account on settlement date.

Receiving bank closed: Debit receiving bank's account on settlement date, or receiving bank may choose next day debit with as of adjustment or explicit charge for float.

Credit Items:

Sending bank closed: Debit sending bank's account on settlement date.

Receiving bank closed: Credit receiving bank's account on settlement date.

The receiving bank is not considered to receive an item made available to it on the day it is closed until its next banking day for purposes of determining the deadline for return.

4.0 STANDARD HOLIDAYS

4.1 The Reserve Banks' banking days include all days except the following standard holidays:⁶

All Saturdays,
All Sundays,
New Year's Day (January 1),
Martin Luther King's Birthday (third Monday in January),
President's Day (third Monday in February),
Memorial Day (last Monday in May),
Independence Day (July 4),
Labor Day (first Monday in September),
Columbus Day (second Monday in October),
Veteran's Day (November 11),
Thanksgiving Day (fourth Thursday in November), and
Christmas Day (December 25).

If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.

6. The New Orleans Branch of the Federal Reserve Bank of Atlanta may close on Mardi Gras.

Appendix C

PREFUNDING OF ACH CREDIT ORIGINATIONS BY SENDING OR CORRESPONDENT BANK

1.0 GENERAL

- 1.1 In order to reduce the risk of loss to Reserve Banks resulting from the finality of credit items, the Administrative Reserve Bank of a (sending or correspondent) bank that settles for credit item originations and whose account the Reserve Bank monitors in real time may notify the bank to pre-fund in accordance with this Appendix credit items that settle through the bank's account at the time a Reserve Bank processes the items.

A sending bank, by sending credit items, and a correspondent bank, by agreeing to settle for items, agree as follows:

2.0 DEFINITIONS

- 2.1 For purposes of this Appendix:

Settling bank means a sending bank that originates credit items, or the correspondent bank whose account the sending bank uses for settlement, that has been notified by its Administrative Reserve Bank that it must prefund the credit item originations that settle through its account.

Prefund means to pay, in actually and finally collected funds, to the settling bank's Administrative Reserve Bank, the total amount of all ACH credit item originations, including credit items originated through an ACH operator (other than a Reserve Bank), at the time a Reserve Bank processes the items.

3.0 PREFUNDING OF ACH CREDIT ITEMS

- 3.1 The settling bank's Administrative Reserve Bank may, in its discretion, by notice to the settling bank, require that the settling bank irrevocably make available to the Administrative Reserve Bank, in actually and finally collected funds, the total amount of all ACH credit item originations at the time a Reserve Bank processes the items (to prefund). The settling bank authorizes its Administrative Reserve Bank, at the time a Reserve Bank processes the items, to deduct from the settling bank's account the amount needed to prefund the credit items.
- 3.2 If the settling bank fails or refuses to prefund the full amount of ACH credit items originated, the Reserve Banks may, in their discretion, refuse to process any batch containing credit item originations (including a batch with both credit items and debit items) that has not been prefunded. If the settling bank only partially prefunds the total amount of ACH credit item originations, the Reserve Banks may, in their sole discretion, determine which batch of credit items shall be considered to have been prefunded, or may refuse to settle for all the items, and will notify the sending (and a settling correspondent) bank.

- 3.3 If the settling bank prefunds the ACH credit items originated, its obligation to settle in respect of the prefunded ACH credit items originated up to the amount of the prefunding shall be automatically satisfied and discharged and replaced by an irrevocable obligation of a Reserve Bank to settle for the prefunded items on the settlement date.
- 3.2 A Reserve Bank shall have no obligation to the settling bank for interest or other compensation or adjustment for the prefunded amount between the date of prefunding and the settlement date.

4.0 MISCELLANEOUS

- 4.1 The Reserve Banks reserve the right to defer the availability of some or all of the credit arising from ACH debit items originated by the sending bank.
- 4.2 The Reserve Banks shall have no responsibility for any rights or obligations between a sending bank and its correspondent relating to this Appendix.
- 4.3 To the extent of any inconsistency between this Appendix and the Circular, the provisions of this Appendix shall govern.
- 4.4 The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.

APPENDIX D

GOVERNMENT ACH ITEMS

1. The Reserve Banks handle ACH items for which an agency of the Federal Government is the sending bank or the receiving bank (Government ACH items) as fiscal agents of the United States under Treasury Department regulations, including 31 CFR Parts 210, 203 and 370, and Treasury procedures. As to matters those regulations and procedures do not cover, this Circular applies. The rules and procedures may differ as between commercial and Government ACH items, and as between Government ACH items of different types.
2. A Reserve Bank makes the amount of all Government credit items sent to a receiving bank available for withdrawal or other use by the receiving bank at 8:30 a.m. Eastern Time. A Reserve Bank may cease acting on a Government ACH item at any time upon direction of the Treasury Department, and will so notify the bank.
3. Unless expressly authorized in writing by the Treasury Department, a sending bank shall not, under any circumstances, send a debit item designating the Government as receiving bank.
4. A Reserve Bank shall not have or assume any responsibility or liability to any person other than the Treasury Department with respect to Government ACH items.

Table of Contents

Operating Circular 4

AUTOMATED CLEARING HOUSE ITEMS

	Page
1.0 General	1
2.0 Definitions	2
3.0 Sending Credit and Debit Items	3
4.0 Security Procedures	4
5.0 Sending Bank's Agreements	4
Prefunding	4
6.0 Processing of Items	4
Cross Border Payments	5
7.0 Delivery of Items	6
8.0 Time Schedules, Settlement Dates and Extensions of Time Limits	6
9.0 Designation of Settlement Account	6
10.0 Settlement	7
Security Interest	8
Refusal to Settle	8
11.0 Availability of Credit	8
Debit Items	8
Credit Items	9
12.0 Receiving Bank's Agreements	9
13.0 Revocation of Items	9
14.0 Return of Items and Funds	9
15.0 Disputed Returns	10
16.0 Advices of Credit and Debit; Reporting of Errors	10

Table of Contents

Operating Circular 4

AUTOMATED CLEARING HOUSE ITEMS Table of Contents (continued)

	Page
17.0	Records 10
18.0	Fees 10
19.0	Non-value Messages 10
20.0	Reserve Bank Liability; Item Other Than Credit Item Subject to Article 4A 11
	Limitation on Liability 11
	Measure of Damages 11
21.0	Reserve Bank Liability; Credit Item Subject to Article 4A 11
	Liability 11
	As Of Adjustments 11
22.0	Forum for Action 13
23.0	Recovery by Reserve Bank 13
24.0	Right to Amend 13
Appendices	
	Appendix A – ACH Security Procedures 14
	Appendix A1 – ACH Security Procedure Agreement 16
	Appendix B – ACH Items Time Schedule 17
	Appendix C – Prefunding of ACH Credit Originations by Sending or Correspondent Bank 20
	Appendix D – Government ACH Items 22